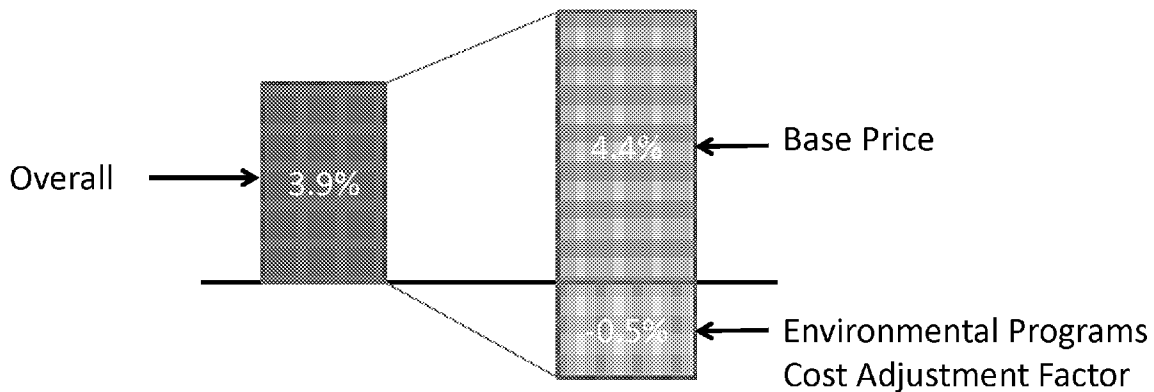


**Proposed Adjustments To
SRP's Standard Electric Price Plans
Effective With The
April 2015 Billing Cycle
Management Revised Proposals and
Response**

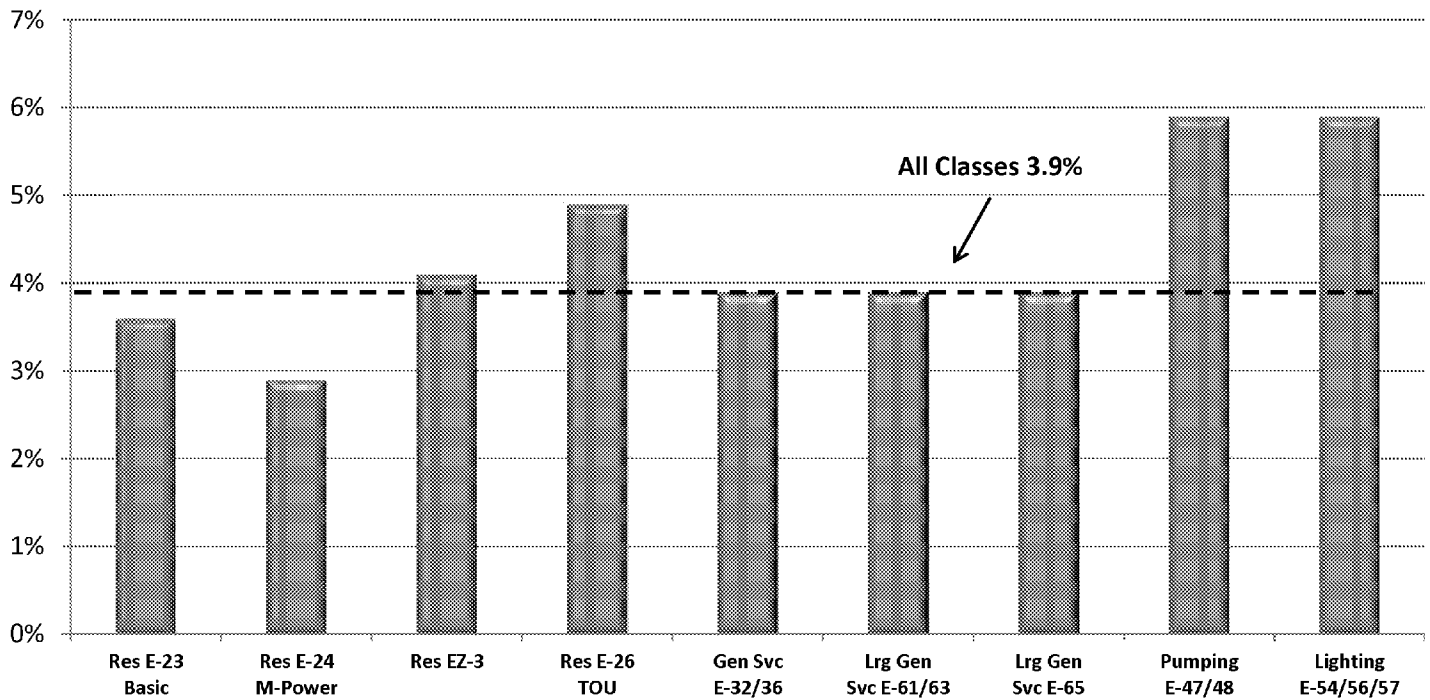
February 26, 2014

Management's December 12th Proposal

- Overall average 3.9% price increase (\$109.7 M)
 - 4.4% base price increase
 - 0.5% Environmental Programs Cost Adjustment Factor decrease (EPCAF)
 - No material change to Fuel & Purchased Power Adjustment Mechanism (FPPAM)



Proposed Price Increases Effective April 2015 Billing Cycle



February 26, 2015, Special Board Meeting, A.J. McSheffrey/M.B. Bonsall

2

E-27 Design

	MSC		Season	On-Peak Demand (\$/kW)			Energy (\$/kWh)	
	Amp	Amp		First	Next	All Add'l	On-Peak	Off-Peak
	Svc.	Svc.		3 kW	7 kW	kW		
	0-200	201+						
E-27 Proposed (Bluebook) 15 min On-Pk Demand	\$32.44	\$45.44	Summer Peak	\$8.10	\$15.05	\$28.93	\$0.0633	\$0.0423
			Summer	\$6.61	\$12.07	\$22.98	\$0.0486	\$0.0371
			Winter	\$2.87	\$4.57	\$7.91	\$0.0430	\$0.0390

Management's Revised Proposal

Management's Revised Proposal

- Approve 3.9% General Price Increase as presented in management's December 12th proposals.
 - 4.4% base price increase
 - 0.5% Environmental Programs Cost Adjustment Factor decrease (EPCAF)
 - No material change to Fuel & Purchased Power Adjustment Mechanism (FPPAM)

With the following Modification:

- 30-minute on-peak E-27 design

E-27 Design

	MSC		Season	On-Peak Demand (\$/kW)			Energy (\$/kWh)	
	Amp	Amp		First	Next	All Add'l	On-Peak	Off-Peak
	Svc.	Svc.		3 kW	7 kW	kW		
	0-200	201+						
E-27 Alternate 30 min On-Pk Demand	\$32.44	\$45.44	Summer Peak	\$9.59	\$17.82	\$34.19	\$0.0633	\$0.0423
			Summer	\$8.03	\$14.63	\$27.77	\$0.0486	\$0.0371
			Winter	\$3.55	\$5.68	\$9.74	\$0.0430	\$0.0390

In Response to Input-

- Summer 2015 Phase-in of Monthly Service Charge for Residential. Comparable changes for other classes.

Management's Revised Proposal Summer 2015 (May-Oct) Phase-in

- Residential (E-20s): Implement \$18.50 monthly service charge for Summer 2015 and Summer Peak 2015
- Residential Monthly Service Charge

	Current	Summer 2015 (May-Oct)	Winter	Summer 2016 and beyond
Monthly Service Charge	\$17.00	\$18.50	\$20.00	\$20.00

Management's Revised Proposal

Summer 2015 (May – Oct) Phase-in

Typical Customer Impact

- Monthly Impacts will vary by season
- Individual impacts will vary depending on energy usage pattern

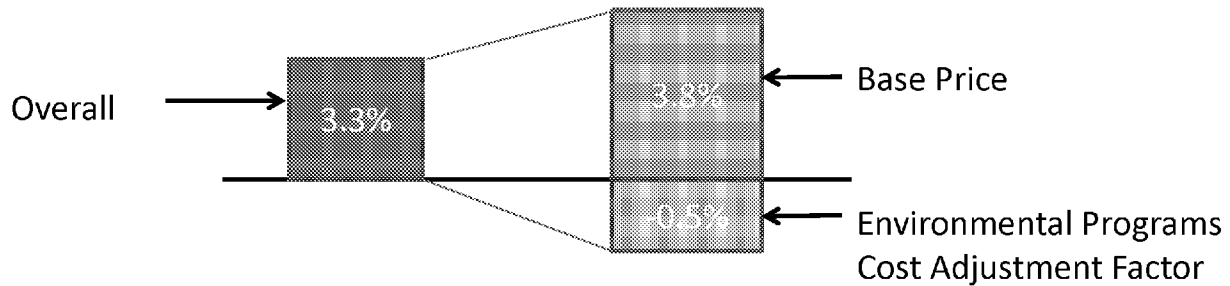
Typical Customer by Price Plan	Average Monthly kWh Usage	Average Monthly Increase First Year	Average Monthly Increase Full Implementation
Basic (E-23)	1,110	\$3.86	\$4.61
Percentage Increase		3.0%	3.6%

Management's Revised Proposal Summer 2015 (May-Oct) Phase-in

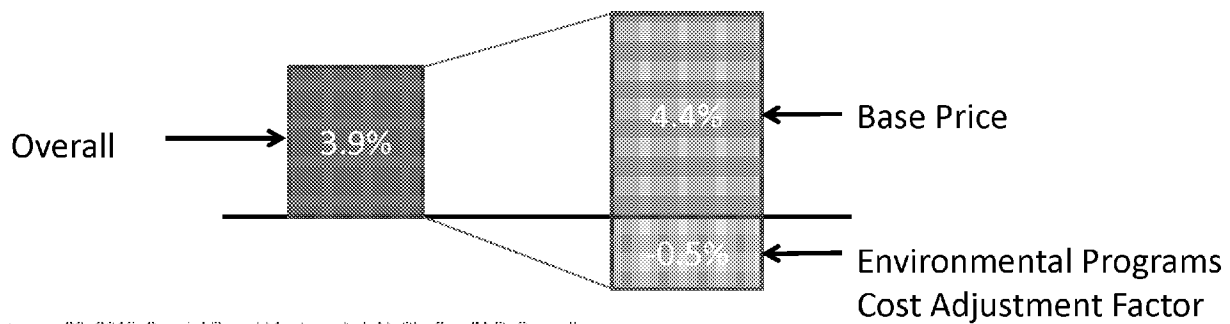
- General Svc (E-30s), Pumping (E-40s) and Large General Svc (E-60s):
 - Comparable to changes for Residential (E-20s)
 - Phase-in Demand Charges
 - Proposed changes in the documents provided
- Total for all customer classes is a \$15.7M reduction to test year revenue
 - \$109.7M increase → \$94M increase

Management's Revised Proposal

First Year Impact w/Summer Phase-in



Full Year Impact November 2015 – October 2016



February 26, 2015, Special Board Meeting, A.J. McSheffrey/M.B. Bonsall

11

Management's Revised Proposal Other Recommendations

- Commit to a review of allocation methods with a broad stakeholder group
- Develop E-27 pilot program for 5,000 non-DG customers
 - Target a representative sample of SRP's customers as a whole
- Management will return with "EZ-3" design thoughts in about a year

Grandfathering Proposal

February 26, 2015, Special Board Meeting, A.J. McSheffrey/M.B. Gonsall

13

Management Proposal

- Approve the following grandfathering proposal:
 - Longer of 10 years from April 1, 2015 or 20 years from date of installation for Category A
 - 10 years from April 1, 2015 for Categories B, C, D
 - No limitation on transfers – grandfathering would transfer with the property

Residential Solar Customers

Type		# of Customers
Category A:	REC agreement with customers (customers who own their systems)	4,304
Category B:	REC agreement with vendors (leased systems)	7,310
Category C:	No REC agreement (Pre Announcement)	1,766
Category D:	No REC agreement (Post Announcement)	2,063

Grandfathering Proposal

Estimated Cost Shift

Type		Cost Shift
Category A:	REC agreement with customers	\$36M
Category B:	REC agreement with vendors	\$43M
Category C:	No REC agreement (Pre Announcement)	\$10M
Category D:	No REC agreement (Post Announcement)	\$12M
		<hr/> \$101M

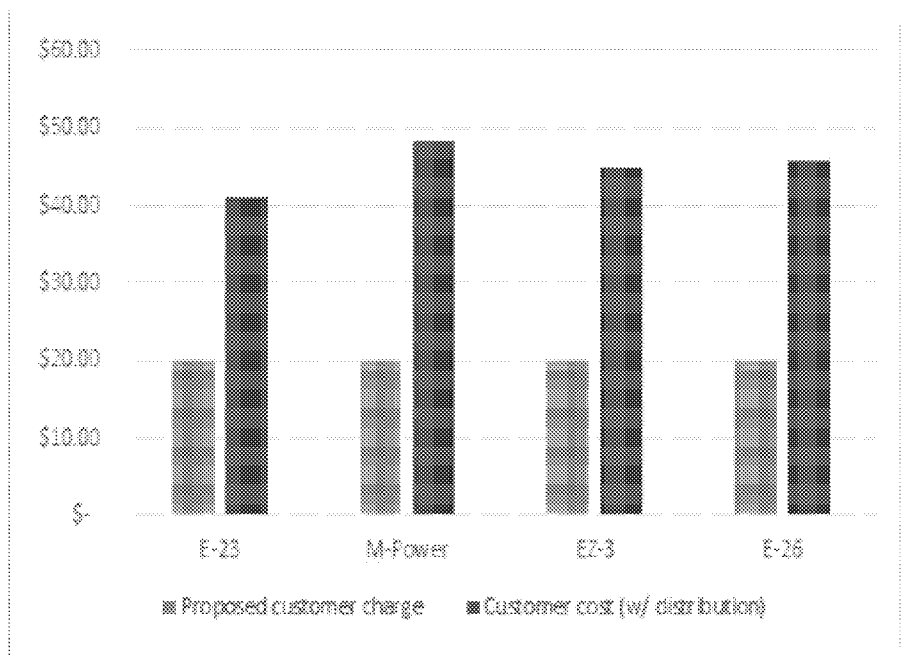
These are estimates only. They can and will change as prices may be changed by SRP's Board over time.

Another Option

- The average grandfathering term for category A is 16 years
- If we extend grandfathering for categories B, C & D to 16 years the cost shift increases by \$41 million to \$142 million
 - Category B \$26 million
 - Category C \$7 million
 - Category D \$8 million

Management Responses

Monthly Service Charge Revenue vs. Cost



Helping Residential Solar Customers Reduce Demand

- SRP strategy to support customers:
 - Inform customers of ***technologies*** (load control devices; efficiency programs)
 - Educate customers on ***behaviors*** (load management educational campaign; understanding price signals)
 - Notify customers of ***data sources*** (daily load and energy use on *MyAccount*; evaluate peak load notification service)

Interruptible Programs

- AECC and CMC Arizona support the continuation of SRP's interruptible programs
 - SRP has reached agreement with some customers under the current interruptible program, but not all
- Management will continue to offer Instantaneous and 10-minute interruptible programs
 - Valuation of programs is appropriate for the economic and capacity benefits realized by SRP

Status of Advanced Inverter/Demand Management/Load Controller Pilot

- SRP has been unable to reach agreement with local installers, thus far, on their participation in the pilot
- SRP will continue to work with EPRI to move the project forward

Combined Net Revenues FY2016

(\$ Millions)	Zero Price Increase	3.9% Price Increase
Total Operating Revenues	\$3,200	\$3,309
Operating Expenses		
Purchased Power/Fuel/Water for Power	\$1,252	\$1,252
Operating Expenses & Maintenance	\$1,112	\$1,112
Depreciation and Amortization	\$535	\$535
Taxes and Tax Equivalents	<u>\$167</u>	<u>\$167</u>
Total Operating Expenses	\$3,066	\$3,066
Net Operating Revenues	\$134	\$243
Plus Other Income	\$5	\$5
Less Net Financing Costs	<u>\$185</u>	<u>\$182</u>
Combined Net Revenue	(\$46)	\$66

Management's Pricing Recommendation

- Approve 3.9% General Price Increase
- Summer 2015 Phase-in
- 30-minute on-peak E-27 design
- Review of allocation methods with stakeholders
- E-27 pilot program for 5,000 non-DG customers
- Return with "EZ-3" design thoughts in about a year

Management's Grandfathering Recommendation

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